BANKING AND FINANCIAL INCLUSION

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The Government of India has been propounding various schemes and programmes such as Self Help Group Bank Linkage Programme (SBLP), Kisan Credit Card (KCC), General Credit Card (GCC), Farmer Producer Organisation (FPO) for effective and sustainable financial inclusion. The recent announcement of Union Budget 2019-20 has shed light on an inclusive India by focusing on *Gaon, Garib aur Kisan*. It is expected that the recent announcement of the Budget may give a boost to banking and financial inclusion, which may lead to equitable and sustainable growth of the economy.

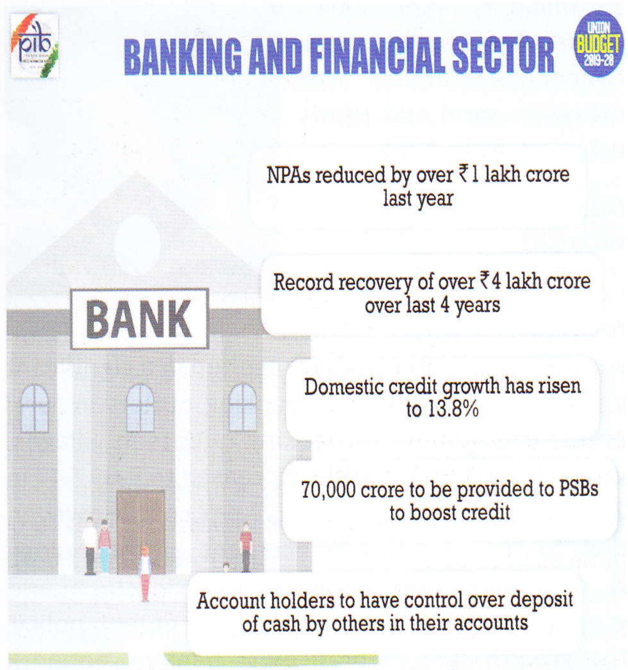
As banks have control over a large part of the supply of money in circulation, they can influence consumption, production, employment and distribution of resources and can play a role in maintaining equity and growth. Financial Inclusion has the ability to uplift financial conditions. Although access to financial services is one of the key elements for poverty eradication, it is not viable for banks to reach all the villages and all the people through brick-and-mortar model. Further, due to high operating cost, high maintenance cost, small ticket size transactions and growing Non Performing Assets, banks face difficulties in financing the weaker sections and low income groups. Therefore, keeping in view the importance of banking and financial inclusion, the article intends to study the interventions made in the recent Union Budget 2019-20.

Status & Progress

Banking and Financial Inclusion go *hand in hand* in fostering economic growth and equitable distribution of financial resources in a more inclusive manner. The banking sector is widely recognised as one of the important drivers for livelihood support for the poor and the disadvantaged sections of the society. By reducing extreme poverty and building prosperity, the banks help accelerate economic progress. Some of the interventions made by Government of India, Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) and their status for effective penetration of financial inclusion are given below:

Self Help Group Bank Linkage Programme (SBLP)

As on March 31, 2018, 87.44 lakh Self Help Groups have been linked with banks with savings aggregating Rs. 19,592 crore. Further, 50.2 lakh SHGs had loans outstanding aggregating Rs. 75,598 crore as on March 2018. This SBLP programme is cost effective and an effective tool for poverty eradication. The programme has proved that lending to the poor is bankable and when small loan products are offered to the poor even without collateral, they repay the dues on time.



Kisan Credit Cards (KCCs) and General Credit Cards (GCCs)

The prime motive of this scheme is to help farmers to get quick and timely access to formal credit. Under the scheme, both owner cultivators as well as landless cultivators avail credit to meet their needs at subsidized rates of interest. Through the KCC, the farmers get bank loan for a variety of purposes in agriculture and allied sectors. Similar is the case for General Credit Cards. These cards cater to the needs of the entrepreneurs in non-farm sector. The entrepreneurs in rural and semi-urban areas get hassle-free bank loan through GCC. This is in the nature of overdraft or cash-credit with no end-use stipulations. As on 31 March 2018, the numbers of KCCs and GCCs issued by the scheduled commercial banks were 46 million and 12 million[1], respectively. These two instruments connect farmers and others in rural and semi-urban areas to banks.

Banking Outlets in villages

The Government's focused thrust and supportive action plan has resulted in a significant growth in the number of banking outlets in rural areas. The number of banking outlets in villages, which was 67,694 in 2010, increased to 5,69,547 in 2018 at an annual rate of 26.7 per cent. However, due to the recent advancement of technology & communication network, infrastructure and scope of cost reduction and Government policy, the growth rate of branchless banking network has been increasing at a fast rate even in remote villages. For example, while banking outlets through branch mode increased at an annual rate of 4.8 per cent from 2010 to 2018, the increase in branchless mode during the same period was 35.2 per cent.

The RBI in January 2006 issued guidelines allowing banks to employ intermediaries such as Business Correspondents[2] (BCs) and Business Facilitators (BFs). While the BCs are allowed to carry out banking transactions on behalf of the bank as agents, the Business Facilitators facilitate submission of clients' proposal to the bank.

To make the BC model more effective and efficient, the business correspondent model has witnessed many regulatory and policy changes. The BCs reach banking facilities to the unreached hinterland through hand-held mobile devices and other equipments that reduce cost and have the ability to record banking transactions. These equipments communicate the record of such transactions to the bank using the internet facilities/GPRS. The Business Correspondents are the face of the bank. They are indeed the bank as far as the rural customers are concerned. The facilities provided through banking outlets enhance social security by facilitating the availability of allied services.

Presently, the BCs have been providing services such as opening accounts, making small deposits, recurring deposits, fixed deposits, withdrawals, remittances, micro insurance and micro pensions. It is expected that in due course, other banking services will be facilitated through the BC mode. The programme has been doing well in financial inclusion. But it is a cause of concern that the number of dormant accounts has also been rising.

BSBDA account

The Financial Inclusion programmes in India became more focused with the introduction of 'No-Frills Account (NFA) in 2005. Under the scheme, the NFA offers minimum banking facilities to the account holders by having a zero balance. Later, in 2012, the No Frill Accounts were replaced with Basic Savings Bank Deposit Account (BSBDA) with the objective of strengthening the efforts

Figure-1(a):Growth Trend of Accounts Through BSBDA (% of Total)

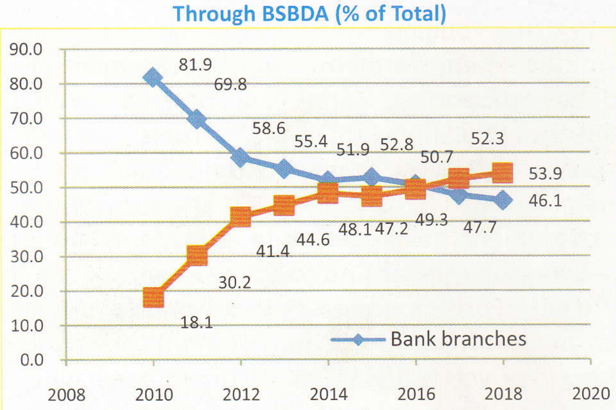
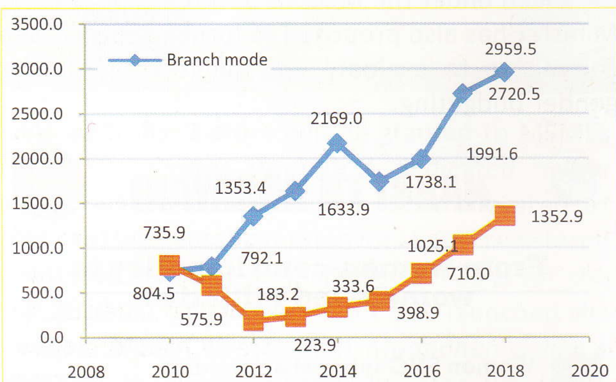


Figure-1(b): Growth Trend in Amount per Account (Rs./Ac)



(Source: Annual Report, Various Issues, Reserve Bank of India)

for furthering Financial Inclusion drive. All the accounts opened earlier as 'no-frills' account were then renamed as BSBDA.

During the period between 2010 and 2018, the number of accounts and amount per account under the scheme increased by 24.7 per cent and 12.1 per cent, respectively[3]. The annual growth rate in *number of accounts* under branchless mode from 2010 to 2018 was 40.8 per cent, which was much higher than that under branch mode during the same period at 17 per cent.

On the other hand, the annual growth in savings *amount per account* under branchless mode was only 5.9 per cent, when it was 16.7 per cent under branch mode, which shows that small surplus of the smallholder farmers and others, which was not coming to the banking net, has started coming to the formal system. Trust factor may be one of the reasons for the slow growth rate of deposit of the account holders in branchless mode. But it is noteworthy to observe that savings amount per account has been steadily rising. Figure 1 (a & b) shows the growth trends of accounts and amount per account through BSBDA from 2010-11 to 2017-18.

Prime Minister Jan Dhan Yojana (PMJDY)

For extending formal financial services such as Banking Savings & Deposit Accounts, Remittances, Credit, Insurance and Pension in an affordable manner to the excluded people, Prime Minster Jan Dhan Yojana (PMJDY) scheme was launched on 28 August 2014. On the inauguration day, 15 million bank accounts were opened under the scheme. The major features of the scheme include: (i) the facility to open a basic savings bank deposit (BSBD) account in any bank branch or BC outlet; (ii) accidental insurance cover and life insurance cover; and (iii) an overdraft (OD) facility after satisfactory operation of the account for six months.

The Government of India has initiated routing of subsidy payments and also introduced insurance and pension products for BSBD account holders including for those accounts opened under PMJDY. To ensure increased activity in these accounts, the efforts that needed to be taken include: (i) rolling out direct benefit transfer (DBT) for all Central and State Government payments; (ii) offering appropriate credit products (farm and non-farm sector) after due diligence; (iii) strengthening the BC network and (iv) increasing awareness through financial literacy initiatives. On the overall, the annual growth in number of accounts and deposit amount from 2015 and 2019 were 19.2 per cent and 44.2 per cent, respectively.

During the same period, the number of PMJDY accounts in rural areas has also increased at an annual rate of 19.1 per cent. Thus, deposits per account, which was Rs.1,065 by the end of March 2015, increased to Rs.2,760 by the end of March 2019.

Banking and Financial Inclusion in Union Budget 2019-20

Banking sector

Union Budget 2019-20 is a growth-oriented budget, which tries to strike a balance between inclusivity and growth. On one hand, the budget lays stress on *Gaon, Garib aur Kisan* and on the other hand, it talks about infrastructure, banking, e-mobility and space technology. On the overall, the focus of the budget is on inclusive growth. The banking sector is the growth engine of the country. In every aspect of life bank plays a decisive role. The growth of agriculture, industry and trade depends on it. But the growing Non Performing Assets (NPAs) have become a threat.

Understanding the problem of liquidity, the Government through this budget has announced to infuse capital of Rs.70,000 crore into the Public Sector Banks. Secondly, the budget pitched for additional power with the Reserve Bank of India over the NBFCs and Housing Finance Companies to provide uniform regulatory environment to the lending segment. Steps have also been taken to bring deposit taking NBFCs and systematically important non-deposit taking NBFCs at par with banks and other public financial institutions through tax measures. Measures to support financially sound NBFCs and higher regulatory RBI monitoring will lead to drive for consolidation of NBFCs.

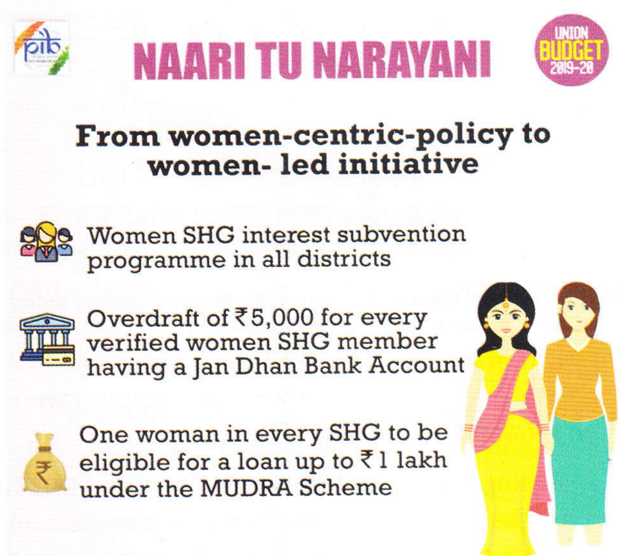
For easy accessibility of banking, the Government has urged the Public Sector Banks (PSBs) to leverage technology, offer online personal loans and doorstep banking and enabling customers of one PSB to access services across all PSBs. This is a case of inclusive banking for the customers across the country.

Inclusive Farmers

Agriculture is the backbone of our country and is a major employment generator. Recent announcement in the budget for promoting 10,000 Farmer Producer Organisations (FPOs) is a welcome step. It is a step to ensure economies of scale for small landholders. This will help linking farmers to markets, reduce transaction costs and increase crop yield. The collectivisation of small and marginal farmers has the ability to collectively address many challenges of agriculture such as access to investment, technology, inputs and markets. Further, it can pave the way towards crop diversification, value addition and enhancement of employment and income of the farmer-members. Economic empowerment of farmers is the real test of inclusion.

Women-led initiatives for Inclusion

The budget has also focussed on women empowerment. The Government has been supporting and encouraging women entrepreneurship through various schemes such as MUDRA, Stand-Up India and the Self Help Groups (SHGs). Through the budget, the Government has re-affirmed to expand Interest Subvention Programme to the women SHGs in all districts. Further, according to the announcement, an overdraft facility of Rs.5,000 will be allowed for every verified women SHG member having a Jan Dhan Bank account. Besides, one woman in every SHG will be made eligible for a loan up to Rs. 1 lakh under the MUDRA Scheme. The Finance Minister has also proposed to form a broad-based committee to evaluate and suggest actions for gender budgeting.



Inclusive growth through MSMEs

Micro, Small and Medium Enterprise (MSME) is another important sector for inclusive growth. After agriculture, MSME is the biggest employer. Over the last few decades, it has emerged as a powerful sector with high potential for employment and inclusive growth. This sector has been assuming special importance for its role in ensuring income equality, employment generation, poverty reduction and promoting a balanced economic development in the country.

The Finance Minister unveiled a slew of initiatives and new provisions to tackle issues related to the MSME sector. She announced that

loans up to Rs. 1 crore will be granted to MSMEs within 59 minutes through a dedicated online portal. Further, Rs.350 crore has been allocated for 2 per cent interest subvention for all GST registered MSMEs on fresh or on incremental loans for the year 2019-20. The Government also launched the *Pradhan Mantri Karam Yogi Maandhan Scheme (PMKYM)* in which pension benefits would be extended to about 3 crore retail traders and small shopkeepers having an annual turnover less than Rs.1.5 crore.

Digital inclusion

To empower rural people digitally, the Government has launched *Pradhan Mantri Gramin Digital Saksharta Abhiyaan.* The scheme aims at imparting digital literacy to citizens in rural areas free of cost. The programme is a dynamic and integrated platform for digital literacy awareness, education and capacity building programmes that will help the rural and under-served communities fully participate in the global digital economy.

The budget has also vowed for internet connection in local bodies in every Panchayat under Bharat-Net to bridge rural-urban divide. With the announcement of the scheme, the *Digital India programme* in rural India will get a further boost. According to Finance Minister, as many as 2 crore rural Indians are now digitally literate as part of the *Gramin Digital Saksharta Abhiyan* and it is expected that as many as 6 crore rural households will be covered as part of the Abhiyan.

Way Forward

The benefits of financial inclusion are clearly established. It is a key enabler in reducing poverty and boosting prosperity. Access to financial services enables the poor and other disadvantaged sections of the society to open doors for the unbanked members, allow them to save, invest, create jobs and reduce inequality. The experiences of SBLP and KCC are quite satisfactory. Financial inclusion acts as a bridge between economic opportunity and outcome. However, more steps need to be taken for effective financial and technological literacy, capacity building, easy and affordable credit facility and marketing the produce of the small and marginal farmers.

As technology can play a pivotal role to make branchless banking a reality, banks may use mobile banking, micro-ATM and Business Correspondent model to reach the unreached and bank the unbanked. It is also expected that agri-tech startups may provide the latest technology and link the farmers with market for better returns.

References

1. Annual Report, Reserve Bank of India.
2. Banking Correspondents (BCs) are individuals/ entities engaged by a bank for providing banking services in unbanked/under-banked areas. The BC works as an agent of the bank and substitutes for the brick-and-mortar branch of the bank.
3. Calculated based on the information available in Annual Report, Reserve Bank of India, Various issues.

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